# The era of low interest rates

Never before have reference rates been so low for so long. This phenomenon, which is widespread across many countries, looks set to continue for some time to come. We are in the midst of a new era of low interest rates, and with it, new risks can emerge.

One of the indicators suggesting that the current environment of low interest rates is set to continue is the interest rate expectations that are implicit in the market prices of financial assets. The ECB is expected to begin raising the reference rate over the next few quarters but, according to the markets, it will do so at such a slow pace that it will still lie below 1% some five years from now. In the US, the cycle of interest rate hikes appears to be coming to an end. In fact, in this case the markets are no longer ruling out the possibility of the Fed even lowering rates next year. If this scenario ends up coming to fruition, the federal funds rate will have remained below 2.5% for more than 15 years. By comparison, between 1960 and 2000, the it never fell below 2.5%.

This change of era is partly a result of better monetary policy management, which has made it possible to maintain lower inflation rates, and partly one of a far-reaching economic and social structural transformation, linked primarily to population ageing and to technological progress. These phenomena have been present for many years now and, by applying upward pressure to savings while depressing the propensity to invest, they caused interest rates that balance the supply and demand of savings to gradually decline. We analyse these factors and their impact on interest rates in detail in the articles of this edition's Dossier.

The risks associated with this new interest rate environment are no less significant. Particularly relevant is the greater political pressure on central banks to implement a more accommodative monetary policy. Ultimately, this could question the independence of the central banks. Trump's constant questioning of the Fed to try and get it to curb its rate hikes is a good example of this.

The purchase of public debt by the main central banks helped to contain the impact of the global economic and financial crisis, but it also changed the rules of play. *A priori*, it served as an exceptional measure to fight a crisis without precedent. But in the new environment of low interest rates, central banks are likely to have to resort to this tool in order to stimulate the economy. The Fed has already announced that it will keep much of the public debt it purchased on its balance sheet. The ECB has also made it clear that it will maintain its balance sheet at its current size for at least a few more years to come.

In this context, the temptation to demand greater stimuli from the monetary authorities will be hard to resist, especially given the high levels of public debt in most developed economies, which make the impact of an increase in rates on the public finances much higher now. In addition, there are growing demands for an alleged «democratisation» of all institutions.

However, it is worth recalling that the independence of the central banks, together with the establishment of reasonable monetary policy objectives, has enabled an era with some of the greatest stability and economic progress in history. Their independence has been essential to prevent them from directly funding public expenditure, which tends to result in periods of hyperinflation and, ultimately, deep economic, financial and social crises. The case of Venezuela is a prime example of this. Furthermore, this institutional design has helped to ensure that the tools used to achieve sustained and inclusive economic growth have been fiscal policy and so-called supply-side policies, just as it should be.

In the era of low interest rates, central banks will have to make very responsible decisions. It is then that the importance of them being independent will become clear. Will we be able to resist the temptation?

**Oriol Aspachs**
Director of Macroeconomics
and Financial Markets
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